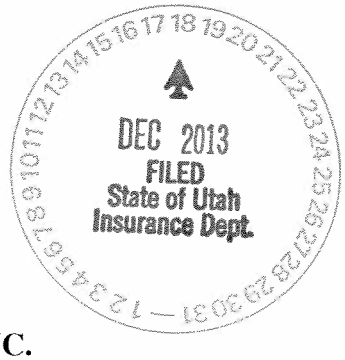
STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of



MOLINA HEALTHCARE OF UTAH, INC.
dba AMERICAN FAMILY CARE OF UTAH, INC.

of

Midvale, Utah

as of

December 31, 2012

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September 13, 2013

Honorable Todd E. Kiser
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2012, has been made of the financial condition and business affairs of:

MOLINA HEALTHCARE OF UTAH, INC.
dba American Family Care of Utah, Inc.
Midvale, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2009 through December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination work papers. All material accounts and activities of the Organization were considered in accordance with the requirements of the risk-focused examination.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook).* The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory

Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The previous examination report as of December 31, 2008, dated April 12, 2010, was distributed to the Board of Directors on July 6, 2010. Items of significance noted in the prior examination report summary were reviewed by the examiner, and it was determined the findings were satisfactorily addressed.

SUMMARY OF SIGNIFICANT FINDINGS

1. The Organization did not notify the Utah Insurance Department of the change of directors on September 20, 2012, pursuant to U.C.A. § 31A-5-410.
   U.C.A. § 31A-5-410 (MANAGEMENT AND CONTROL)

2. The Organization's custodial agreements with UnionBanc and U.S. Bank were not in compliance with U.A.C. Rule R590-178. The Organization corrected the custodial agreement and was compliant with U.A.C. Rule R590-178 by the completion of the financial examination.
   U.A.C. Rule R590-178 (ACCOUNTS AND RECORDS)

SUBSEQUENT EVENTS

Effective April 1, 2013, the following Board of Directors members were elected:

Name	Principal Occupation
Chad Jeffry Westover	President of Molina Healthcare of Utah, Inc.
Richard Wayne Chambers	President of Molina Healthcare of California
Juan Jose Orellana	Vice President Marketing and Communications of Molina Healthcare, Inc.

The examination confirmed the Organization maintained a statutory deposit consisting of a U.S. Treasury Note with a market value of $3,127,066 and a par value of $3,101,150, which was not adequate to cover the required deposit of $3,186,780. On

March 5, 2013, the Organization made a deposit of $200,000 and subsequently met the statutory deposit requirement.

On July 5, 2013, an extraordinary dividend in the amount of $6.0 million was paid to the parent, Molina Healthcare, Inc. (MHI), after receiving approval from the Utah Insurance Department.

ORGANIZATION HISTORY

General

The Organization was incorporated under the laws of the State of Utah on May 27, 1994, as a wholly owned subsidiary of Molina Medical Centers (MMC). On May 1, 1996, the Utah Insurance Department issued the Organization a Certificate of Authority to conduct business as a health maintenance organization (HMO).

Effective January 1, 2000, 100% of the Organization's stock was transferred from MMC to American Family Care, Inc., a holding company now known as MHI. The ownership of MHI was identical to the prior ownership of MMC; therefore, no change of control took place as a result of the reorganization. The Organization amended its Articles of Incorporation on February 25, 2000, and the name of the corporation was changed from American Family Care of Utah, Inc. to Molina Healthcare of Utah, Inc.

The Organization's bylaws, Articles of Incorporation and minutes of the Board of Directors meetings and sole shareholder meetings held during the period covered by this examination were reviewed. The Organization amended its bylaws on February 1, 2009, to change the required fixed number of directors from five (5) to three (3).

Capital Stock

As of December 31, 2012, the number of shares of common stock authorized by the Organization was 100,000 at a par value of $1.00 each. The number of shares issued and outstanding was 100,000. Molina Healthcare, Inc. owned 100% of the outstanding shares of common stock.

Dividends and Capital Contributions

On August 28, 2012, the Board of Directors of the Organization paid a $5 million extraordinary stockholder dividend after receiving approval from the Utah Insurance Department. The Board of Directors of the Organization ratified the payment of the extraordinary dividend by Unanimous Written Consent of the Board of Directors of the Organization dated May 8, 2013.

There were no other dividends declared or paid out during the period under examination.

During 2010 and 2009, MHI made surplus contributions to the Organization in the amounts of $12 million and $9 million, respectively.

Mergers and Acquisitions

The Organization had no mergers or acquisitions during the examination period. The Organization has no immediate plans for mergers, acquisitions or divestures.

Surplus Debentures

On December 2, 2011, the surplus note owed to MHI in the amount of $8,580,000 and interest in the amount of $1,144,138 was repaid to MHI after the Organization received approval on October 24, 2011, from the Utah Insurance Department. The Organization had no surplus notes as of December 31, 2013

CORPORATE RECORDS

In general, the stockholder and Board of Directors meeting minutes indicated the Board and its committees adequately approved and (Board) supported the Organization's transactions and events.

In accordance with U.C.A. § 31A-2-204(8), the Organization promptly furnished a copy of the previous examination report as of December 31, 2008, dated June 8, 2010, to the Board of Directors on July 6, 2010.

The amended and restated bylaws of the Organization, effective February 1, 2009, indicated the fixed number of directors changed from five (5) to three (3) persons. The amended bylaws were filed with the Utah Insurance Department on May 27, 2010.

MANAGEMENT AND CONTROL

The bylaws of the Organization indicated the number of directors shall consist of three (3) persons.

The following persons served as directors of the Organization as of December 31, 2012:

Name	Principal Occupation
Paul Jay Muench	Vice President Claims of Molina Healthcare, Inc.
Chad Jeffry Westover	President of Molina Healthcare of Utah, Inc.

Laurel Alyssa Lee	Vice President Network Management & Operations of Molina Healthcare of Washington, Inc.

It was noted in the September 20, 2012, Board of Directors meeting that Chad Westover replaced Andrew Whitelock as a Board of Directors member. The Organization did not notify the Utah Insurance Department immediately after the change of directors on September 20, 2012, pursuant to U.C.A. § 31A-5-410.

The following persons were elected as directors of the Organization as of April 1, 2013:

Name	Principal Occupation
Chad Jeffry Westover	President of Molina Healthcare of Utah, Inc.
Richard Wayne Chambers	President of Molina Healthcare of California
Juan Jose Orellana	Vice President Marketing and Communications of Molina Healthcare, Inc.

The Organization's bylaws provide for principal officers to consist of three (3) or more in number.

The officers of the Organization as of December 31, 2012, were as follows:

Principal Officer	Office
Chad Jeffry Westover	President/Chief Executive Officer
Richard (NMN) Rosenberg	Treasurer/Vice President of Finance
Jeffrey Don Barlow	Secretary

As a wholly owned subsidiary of MHI, which is a Sarbanes Oxley (SOX) compliant entity, the Organization does not have any committees. The Audit Committee, Corporate Governance and Nominating Committee and Compensation Committee are maintained as committees of the MHI Board of Directors. All of the Organization's committee activities are performed by MHI's committees.

Conflict of Interest Procedure

There were no exceptions noted in the review of the conflict of interest forms completed by the Board of Directors and officers of the Organization.

Affiliated Companies

The Organization is wholly owned and controlled by MHI. An organizational chart illustrating the holding company system follows:

Molina Healthcare, Inc.

- Molina Healthcare of California
- Molina Healthcare of Michigan, Inc.
- Molina Healthcare of Utah, Inc.
- Molina Healthcare of Washington, Inc.
- Molina Healthcare of New Mexico, Inc.
- Molina Healthcare of New Mexico Medical Clinics, Inc.
- Molina Healthcare of Texas, Inc.
- Molina Healthcare of Texas Insurance Company
- Molina Healthcare of Ohio, Inc.
- Molina Healthcare of California Partner Plan, Inc.
- Alliance for Community Health, LLC
- Molina Healthcare of Florida, Inc.
- Molina Healthcare of Virginia, Inc.
- Molina Information Systems, LLC (dba Molina Medicaid Solutions)
- Molina Healthcare of Wisconsin, Inc.
- Molina Healthcare of Illinois, Inc.
- Molina Pathways, LLC
- Molina Center, LLC
- Molina Healthcare Data Center, Inc.
- American Family Care, Inc.
- Molina Healthcare of Arizona, Inc.
- Molina Healthcare of Georgia, Inc.
- Molina Healthcare of Missouri, Inc.
- Molina Healthcare of Mississippi, Inc.
- Molina Healthcare Services
- Molina Healthcare of the District of Columbia, Inc.
- Molina Healthcare of Maryland, Inc.

Transactions with Affiliates

As of December 31, 2012, the Organization was party to various agreements with affiliated companies, which provided administrative services and tax sharing services. The more significant affiliated agreements are summarized as follows:

1. Service Agreement effective: March 1, 2000

Under the service agreement, MHI agrees to perform consulting and administrative services necessary for the Organization's operations, including, but not limited to, marketing, information systems, financial, and other specified general and administrative services. As compensation for these services, the Organization agreed to reimburse MHI for the value of the consultation, assistance, services, materials, supplies, and capital access. Such payment may be adjusted annually by mutual consent of the parties. The service agreement shall automatically renew for successive periods of one year, unless either party gives 60 days' prior written notice

2. Tax Sharing Agreement effective: January 1, 2000

The Organization participates in a Tax Sharing Agreement with MHI. MHI collects from, or refunds to, the subsidiaries the amount of taxes or benefits determined as if each entity filed separate tax returns. Under the tax sharing agreement, the Organization has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses or to recoup net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany balances are settled annually within 90 days of filing the consolidated federal income tax return.

3. Credit Agreement effective: September 9, 2011

On September 9, 2011, MHI entered into a credit agreement for a $170 million revolving Credit Facility with various lenders to be used for general corporate purposes. The Credit Facility was collateralized by the Organization's common stock, as well as the common stock of other subsidiaries of MHI. $40 million was outstanding under this credit facility as of December 31, 2012. As of December 31, 2012, MHI was in compliance with all financial covenants under the Credit Facility.

Effective February 15, 2013, MHI terminated the Credit Agreement for the $170 million revolving credit facility with various lenders and U.S. Bank National Association as the Administrative Agent. As a result, the Organization's issued and outstanding capital stock that was pledged under the Credit Agreement was released from such pledge.

4. Dividends effective: August 28, 2012

On August 28, 2012, the Organization paid an extraordinary cash dividend of $5 million to its sole shareholder, Molina Healthcare Inc. The request for this dividend was approved by the Utah Department of Insurance on August 16, 2012.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for an HMO of the Organization's size and premium volume is not less than $3,300,000. As of the examination date, the Organization participated in fidelity bond coverage of $10,000,000.

MHI and its subsidiaries, which include the Organization, also had additional insurance protection which included property and liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Defined Contribution Plan

The Organization participates in a defined contribution 401(k) plan sponsored by MHI which covers substantially all full-time salaried and clerical employees. Eligible

employees are allowed to contribute up to the maximum allowed by law. The Organization matches up to the first 4% of compensation contributed by employees. Expense recognized in connection with the 401(k) plan was $165,599, and $121,682 for the years ended December 31, 2012, and 2011, respectively. In addition, the Organization provided medical, dental, vision, short term disability, long term disability and life insurance to its eligible employees and their dependents.

Stock Plans

Under an equity incentive plan adopted by MHI, the Organization's employees may be awarded restricted stock. These awards generally vest in equal annual installments over periods up to four years from the date of grant.

Under an employee stock purchase plan adopted by MHI, eligible employees may purchase common shares on either the first or last trading day of each six-month offering period at 85% of the lower of the fair market value of MHI's common stock. Each participant is limited to a maximum purchase of $25,000 (as measured by the fair value of the stock acquired) per year through payroll deductions.

TERRITORY AND PLAN OF OPERATION

The Organization is authorized to provide health care services as a health maintenance organization (HMO) solely in the state of Utah as of December 31, 2012.

Medicaid: The Organization generates revenues through administration of a capitation basis with the State of Utah's Medicaid program and operates in all of Utah's 29 counties. The State prohibits the Organization and other similar plans from marketing directly to eligible Medicaid beneficiaries. This means that all new growth comes through Health Program Representatives located within most counties throughout the State. The Organization strives to differentiate itself by applying managed care prior authorization strategies, reducing health risk by health education efforts in several high risk categories and by quality accreditation programs.

CHIP: The State's Children's Health Insurance Program (CHIP) contracts with the Organization on capitation basis and generates profits by implementing utilization controls, health education and frequent use mitigation. Again, the Organization is restricted in how it markets to eligible beneficiaries but has, through health fairs, public events and limited promotions, been able to influence membership growth. The State now recognizes the Organization as the low cost option and automatically assigns all new applicants to it when the applicant has not selected a plan.

Medicare Advantage: The Organization now operates both a Medicare Advantage Part D Plan and a Medicare Advantage Special Needs Plan. The Special Needs Plan (SNP) can only be marketed to beneficiaries who have qualified for both Medicare and Medicaid. Revenues for these product lines are generated on a risk adjusted capitation

basis. The SNP product is limited to a potential pool of dual eligibles of approximately 18,000 beneficiaries statewide. The Organization is approved to market for Part D in only nine counties in the State including Cache, Box Elder, Weber, Davis, Salt Lake, Utah, Iron, Tooele and Washington counties. At the end of 2012, the Organization had 7,531 SNP members in those counties.

GROWTH OF ORGANIZATION

MOLINA HEALTHCARE OF UTAH, INC.
KEY FINANCIAL INDICATORS ($000)

Year	Assets	Net Premiums Written	Total Capital & Surplus	Statutory Surplus	Net Premiums-to-Statutory Surplus	Total Revenues	Net Income
2012	$82,596	$308,678	$ 50,798	$30,739	10	$310,784	$17,998
2011	84,848	285,476	39,533	27,276	10	292,384	22,276
2010	74,296	256,746	24,781	9,699	26	256,746	(2,196)
2009	54,569	114,041	14,126	4,874	23	114,041	(1,729)

LOSS EXPERIENCE

Actuaries from Taylor-Walker & Associates, Inc. reviewed the Organization's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2012. The review included examining the Organization's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP No. 55, paragraphs 7 and 8, and SSAP No. 54 paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Organization's system with the figures reported in the 2012 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2012.

Taylor-Walker & Associates, Inc. concluded the Organization followed accurate and appropriate procedures in determining its actuarial liabilities, and the reported reserves were in compliance with statutory requirements.

REINSURANCE

The Organization is a party to a medical excess of loss reinsurance agreement for CHIP, Medicare and Medicaid on a claims incurred basis with RGA Reinsurance Company. The Organization's basic retention for the Medicare products is $500,000, CHIP and Medicaid products are $1,000,000 with a limit of $2,000,000.

The Organization has controls in place to monitor its reinsurance program including the financial condition of its reinsurers. In addition, the Organization utilizes

the services of Guy Carpenter & Company, LLC as a reinsurance intermediary to solicit, negotiate, and place reinsurance cessions on its behalf. The reinsurance agreement was reviewed and found to comply with Utah reinsurance statutes.

ACCOUNTS AND RECORDS

The Organization's general ledger was maintained on an accrual basis. The examiner footed the Organization's general ledger trial balance and reconciled it to the balance sheet and income statement contained in the December 31, 2012 Annual Statement. Individual financial statement accounts for the years covered in the examination period were reviewed and reconciled as deemed necessary.

An independent certified public accounting firm audited the Organization's records during the period covered by this examination. Audit reports generated by the auditors for the years 2009 through 2012 were made available for the examiner's use.

The information technology and associated systems for the Organization as well as all of the MHI health plans operate on a single platform located at the health information technology center in Albuquerque, New Mexico.

MHI exerts control over geographically dispersed subsidiaries through uniform policies/procedures and by adopting a single IT platform (QNXT). QNXT is the primary platform to maintain the key health plan administration functions including, enrollment management, claims processing, encounter processing, primary care provider (PCP) and contract management, and appeals & grievances, etc. The QNXT platform allows ease of integration with electronic data interchange (EDI) & batch processes, and Molina has built several custom processes around QNXT.

Effective April 1, 2011, the Organization migrated general ledger functions and payroll functions to a JD Edwards system. The new system replaced MAS 200 and ADP. The general ledger, accounts receivable, accounts payable, fixed assets and payroll functions are performed using the new system located in Long Beach, California.

MHI centralizes key processes such as claims processing, investments, accounting, reinsurance, trade disbursements, bank reconciliations, payroll, and cash management in Long Beach, California. Legal and regulatory functions are located in Sacramento, California. Financial reporting, financial statement preparations and SEC reporting functions are located in both Long Beach, California and Bothell, Washington. Key estimation processes (such as IBNR, impairment analyses, and legal accruals) are prepared or reviewed by corporate personnel.

The primary operations for Provider Services, Member Services, Utilization Management and Quality Improvement are located in Midvale, Utah.

The following issue was identified in the review of the Organization's accounts and records:

1. The Organization's custodial agreements with UnionBanc and U.S. Bank were not in compliance with Utah Administrative Code (U.A.C.) Rule R590-178. The Organization corrected the custodial agreements with both banks during the course of the examination and subsequently was compliant with Rule R590-178 by the completion of the examination.

The Organization was very cooperative in providing examination requested information.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was $3,186,780 pursuant to U.C.A. § 31A-8-211(1) for health organizations. The examination confirmed the Organization maintained a statutory deposit consisting of a U.S. Treasury Note with a market value of $3,127,066 and a par value of $3,101,150, which was not adequate to cover the required deposit of $3,186,780. On March 5, 2013, the Organization made a deposit of $200,000 and subsequently met the statutory deposit requirement.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determinations made during the examination:

BALANCE SHEET as of December 31, 2012

STATEMENT OF REVENUE AND EXPENSES for the Year Ended December 31, 2012

RECONCILIATION OF CAPITAL AND SURPLUS – 2009 through 2012

The accompanying COMMENTS TO FINANCIAL STATEMENTS are an integral part of the financial statements.

MOLINA HEALTHCARE OF UTAH, INC.
BALANCE SHEET
as of December 31, 2012

ASSETS

	Net Admitted Assets
Bonds	$ 39,606,586
Cash and short-term investments	37,961,078
Investment income due and accrued	243,851
Uncollected premiums and agents' balances in the course of collection	1,580,219
Amounts receivable relating to uninsured plans	1,226,000
Current federal and foreign income tax recoverable and interest thereon	1,036,651
Net deferred tax asset	938,855
Electronic data processing equipment and software	2,925
Total assets	$ 82,596,165

LIABILITIES, SURPLUS, AND OTHER FUNDS

Claims unpaid	$ 27,576,401
Unpaid claims adjustment expenses	450,194
Aggregate health policy reserves, including the liability of $0 for medical loss ratio rebate per the Public Health Service Act	919,000
General expenses due or accrued	880,010
Amounts due to parent, subsidiaries and affiliates	281,836
Liability for amounts held under uninsured plans	1,567,000
Aggregate write-ins for other liabilities	123,601
Total liabilities	31,798,042
Common capital stock	100,000
Gross paid in and contributed surplus	22,398,584
Unassigned funds (surplus)	28,299,539
Total capital and surplus	50,798,123
Total liabilities, capital and surplus	$ 82,596,165

MOLINA HEALTHCARE OF UTAH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2012

	Amount
	Total
Net premium income	$ 308,677,960
Aggregate write-ins for other health care related revenues	2,106,371
Total revenues	310,784,331
Medical and Hospital:	80,924,768
Hospital/medical benefits	1,903,797
Outside referrals	127,742,313
Prescription drugs	40,717,146
Incentive pool, withhold adjustments and bonus amounts	30,290
Subtotal	251,318,314
Less:	
Net reinsurance recoveries	37,821
Total medical and hospital	251,280,493
Claims adjustment expenses	8,341,870
General administrative expenses	24,414,313
Increase in reserves for life and accident and health contracts including $0 increase in reserves for life only	754,570
Total underwriting deductions	284,791,246
Net underwriting gain or (loss)	25,993,085
Net investment income earned	287,666
Net realized capital gains or (losses) less capital gains tax of $9,813	18,222
Net investment gains or (losses)	305,888
Net income or (loss) before federal income taxes	26,298,973
Federal and foreign income taxes incurred	8,300,581
Net income (loss)	$ 17,998,392

MOLINA HEALTHCARE OF UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2009 through 2012

	2009*	2010*	2011*	Per Exam 2012
Capital and surplus prior reporting year	$ 6,937,429	$ 14,126,215	$ 24,781,122	$39,532,989
Increase (decrease in common stock)	-	-	-	-
Increase (decrease) in contributed capital	-	-	-	-
Net income or (loss)	(1,729,233)	(2,196,436)	22,275,872	17,998,392
Change in net deferred income tax	(36,774)	1,191,264	(72,361)	(449,949)
Change in nonadmitted assets	(88,914)	(339,921)	253,196	(1,322,219)
Change in surplus notes	-	-	(8,580,000)	-
Cumulative effect of changes in accounting principles	-	-	-	38,910
Surplus adjustments: Paid in	9,000,000	12,000,000	-	-
Dividends to stockholders	-	-	-	(5,000,000)
Aggregate write-ins for gains or (losses) in surplus	43,707	-	875,160	-
Rounding	-	-	-	-
Net change in capital and surplus	7,188,786	10,654,907	14,751,867	11,265,134
Capital and surplus end of reporting year	$ 14,126,215	$ 24,781,122	$ 39,532,989	$ 50,798,123

* Per the regulatory financial statements filed with the Utah Insurance Department

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus $50,798,123

The Organization's capital and surplus was determined to be the same as that reported in the Organization's Annual Statement as of December 31, 2012, which significantly exceeded the authorized control level risk-based capital of $10,246,406. No financial adjustments were determined necessary for examination purposes.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Organization notify the Utah Insurance Department regarding all changes of Board of Director members of the Company and comply with U.C.A. § 31A-5-410 "Supervision of Management Changes".

ACKNOWLEDGEMENT

Scott Garduno, FSA, MAAA, of Taylor-Walker & Associates, Inc., performed the actuarial phases of the examination. Paul Berkebile, CISA, CFSA, Senior Manager and David C. Gordon, MBA, CIA, CISA, CFE, IT Specialist, both of INS Services, Inc. performed the information systems review. Donald Catmull, CFE, Assistant Chief Examiner, and Aaron Phillips, CFE, Audit Manager, representing the Utah Insurance Department, jointly supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

Don Gaskill, CFE
INS Regulatory Insurance Services, Inc.
Examiner-in-Charge, representing the
Utah Insurance Department